

**MINUTES  
REGULAR MEETING  
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**Friday, March 18, 2005  
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10<sup>th</sup> Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Dr. Keith Meredith, Chair of the ASRS Board, called the meeting to order at 8:35 a.m., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

**1. Call to Order; Roll Call; Opening Remarks**

Present: Dr. Keith Meredith, Chair  
Mr. Karl Polen, Vice Chair  
Mr. David Byers  
Mr. Jaime Gutierrez  
Mr. Chris Harris  
Ms. Anne Mariucci (via teleconference)  
Mr. Michael Townsend (via teleconference)  
Mr. Lawrence Trachtenberg (via teleconference)  
Mr. Steven Zeman

A quorum was present for the purpose of conducting business.

**2. Approval of the Consent Agenda**

**Motion:** Mr. Chris Harris moved to approve Refunds, Death Benefits and Retirements,

***And***

Approve the System Transfers,

***And***

Approve the applications and agreements with the following employers:

- White Mountain Regional Development Corporation
- Tucson Small School Project

***And***

Approve the minutes of the February 2005, regular and special meetings of the ASRS Board,

***And***

Approve the retirement date change for Jack A Darnum.

Mr. Jaime Gutierrez seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

**3. Presentation, Discussion, and Appropriate Action Regarding Notice of Final Rulemaking for R2-8-117, Prior Service Pensions, and Article 5, Purchasing Service Credit**

Ms. Nancy O. Johnson, Rules Coordinator, provided an overview of the process to date. She stated that the rulemaking addresses the purchase of service credit, including other public service, forfeited service, military service, military call up service, and leave of absence service. The rules specifically address:

- a. The categories of eligible service and required documentation,
- b. The procedure for requesting purchase of service credit,
- c. Restrictions on purchases of service credit,
- d. Methods of purchasing service credit,
- e. Interest charges for payroll deduction authorization when purchasing service credit,
- f. How the cost of purchasing service credit is calculated, and
- g. The effect of retirement, termination, death, or returning to work on service purchase authorization.

Ms. Johnson voiced that the rulemaking also repeals R2-8-117, Prior Service Pensions that addresses teachers who worked prior to the creation of the ASRS in 1953. R2-8-117 is being repealed because the average annual wage has already been determined for those few members that R2-8-117 applies to and therefore, the rule is irrelevant and unnecessary.

Ms. Johnson stated that the proposed rules were approved by the Board at the December 2004 Board meeting, and an oral proceeding was held on February 14, 2005. There were no comments submitted, and no changes were made to the proposed rules. The rules in the Final Rulemaking are the same as the rules in the Proposed Rulemaking.

**Motion:** Mr. Jaime Gutierrez moved that the Board approve the Notice of the Final Rulemaking for R2-8-117, Prior Service Pensions, and Article 5, Purchasing Service Credit.

Mr. Steven Zeman seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

#### **4. Presentation, Discussion and Appropriate Action Regarding U. S. Equity Small Cap Growth Investment Manager Search**

Mr. Gary Dokes, Chief Investment Officer, stated that the Board approved the termination of Columbia Management Company as an ASRS U.S. Equity Small Cap Growth manager in July 2004, as the result of organizational and performance issues. The Columbia portfolio was subsequently transitioned to Barclays Global Investors (“BGI”) and managed as a passive small cap growth index portfolio until replacement active managers were identified and approved by the Board. In November 2004, the Investment Committee approved the recommendation of the manager search committee to seek Board approval to hire Batterymarch and Artisan Partners and to transition approximately \$240 million in securities from BGI to these active small cap growth managers (approximately \$120 million allocated to each manager). The Board approved the hiring of Batterymarch and Artisan on November 19, 2004.

Half the assets were migrated to Batterymarch and performance measurement commenced on January 1, 2005. However, Artisan Partners notified the ASRS, in mid-December 2004, that they were declining the small cap mandate as the result of issues with the Arizona Procurement/Investment contract. Following this notification, the search committee reconvened and perused the previously interviewed short-listed small cap managers to determine an appropriate candidate to replace Artisan. As the result of the current limited universe of available (open) institutional small cap growth managers and a consensus to not select a previously interviewed manager, the search was broadened to consider managers who demonstrate a fundamental understanding of the risk and returns of small capitalization companies and whose investment process, style, etc., are consistent with the ASRS small cap growth mandate.

During the review of potential managers, the Investment Management Division (“IMD”) and Mercer identified TimesSquare Capital Management as a successful small cap growth manager candidate; however, their small cap growth product was closed. The manager search committee determined it appropriate to assess TimesSquare’s Small/Mid-Cap product given their highly experienced portfolio management team, sound investment process and their ability to understand the dynamics of smaller capitalized companies.

Mr. Dokes further reported that the Investment Committee approved the following recommendations at the March 4, 2005 meeting:

- Select TimesSquare Capital Management to replace Artisan Partners as an ASRS Small Cap Manager.
- Approve approximately \$120 million to be transitioned by the IMD to TimesSquare Capital Management.

Mr. Dokes provided an analysis of the recommendation of TimesSquare, indicating that the company has generated strong risk-adjusted returns, with an information ratio ranking in the 25<sup>th</sup> percentile for the 5-year period ending December 2004. Mercer has rated this product as an A, its highest rating, denoting an above average probability of out-performance.

Mr. Dokes explained that given the importance of maintaining consistency and minimizing overlaps in the style and capitalization-ranges of portfolio structure, an examination of these attributes yielded the following: 1) the holdings-based style analysis of TimesSquare’s Small Mid Growth portfolio shows a neutral market cap exposure relative to the Russell 2500 (the product’s official benchmark), 2) a style map based on portfolio holdings for the small cap growth universe shows the product to be in the middle of the cap range for small cap growth, and

3) the returns-based style analysis for rolling 3-year periods is consistent with a small cap growth mandate and demonstrates no significant style drift. Additionally, the degree of overlap between TimesSquare's small cap growth and small/mid cap growth products is 56% in terms of names, and 70% in terms of market value. In summary, TimesSquare's Small/Mid Growth product appears to be a good approximate fit for the small cap growth mandate in the ASRS portfolio structure.

Mr. Lawrence Trachtenberg recused himself from the discussions citing a conflict of interest.

**Motion:** Mr. Jaime Gutierrez moved to approve the selection of TimesSquare Capital Management to replace Artisan Partners as an ASRS Small Cap Manager and to approve approximately \$120 million to be transitioned by the Investment Management Division to TimesSquare Capital Management.

Mr. Steven Zeman seconded the motion.

By a vote of 8 in favor, 0 opposed, 1 abstention, the motion was approved.

#### **5. Presentation, Discussion and Appropriate Action Regarding State Legislation for the 2005 Legislative Session Relating to the ASRS**

Mr. Matson requested Ms. Denisse Gee, Government Relations Officer, to provide an overview to the ASRS Board. Ms. Gee referred to the March 11, 2005 iteration of the "Quick Reference" guide.

The Board heard a presentation by Ms. Denisse Gee regarding various bills that might impact the ASRS. The following bills were discussed:

HB 2028; HB 2149; HB 2411; HB 2471; HB 2472; HB 2473; HB 2474; HB 2502; HB 2552; HB 2562; HB 2621; HB 2641; HB 2671; HB 2718; SB 1014 ; SB 1186; SB 1206; SB 1278; SB 1359; SB 1360; SB 1366; SB 1426; SB 1428

#### **6. Director's Report**

Mr. Jaime Gutierrez made reference to some of the statistics for the Call Center, primarily the abandonment rate and the wait time. Mr. Anthony Guarino responded that a spike in volume due to legislative and policy changes, coupled with staff shortages resulting from budget constraints, has caused a degradation in service levels. Mr. Guarino reported that the subject would be discussed at an Operations Committee meeting on March 24, 2005, and a report would be made back to the Board thereafter.

**7. Possible Presentation and Discussion Regarding Board Committee Updates**

Mr. Gutierrez, Chair, External Affairs Committee. No report.

Mr. Trachtenberg, Chair, Investment Committee. No report.

Mr. Townsend, Chair, Operations Committee. No report.

**8. Board Requests for Agenda Items**

Dr. Meredith called for Board Requests for Agenda Items. There were no requests made.

**9. Call to the Public**

Mr. Roy W. McClure addressed the Board regarding his claim for disability with the Arizona State Retirement System. He distributed documents which provided an overview and history of his communication with VPA and the ASRS.

Dr. Keith Meredith informed Mr. McClure that this matter could not be discussed since it was not an agenda item. There was dialogue with Mr. McClure by the Trustees, at which time the Trustees thanked him for personally appearing to pursue his claim. Mr. McClure was informed that his situation had been taken under advisement by staff and that there would be subsequent follow-up.

Mr. Richard A. Davis addressed the Board stating that he had been retired for two years and was very satisfied with his retirement benefits. He wanted to thank the Trustees and the Arizona State Retirement System for all of their good work. The Trustees thanked Mr. Davis for his comments.

**10. The next ASRS Board meeting is scheduled for Friday, April 15, 2005 at 8:30 a.m., at 3300 N. Central Avenue, 10<sup>th</sup> Floor Board room, Phoenix, Arizona.**

**11. Adjournment of the ASRS Board**

Dr. Meredith adjourned the March 18, 2005 Board meeting at 9:37 a.m.

ARIZONA STATE RETIREMENT SYSTEM

---

Cassandra Harris, Secretary

Date

---

Paul Matson, Director

Date